

Gerdau SA XGGB ★★★★★ Q 6 Jun 2023, 23:12 UTC

Economic Moat	Uncertainty	Price/Fair Value	ESG Risk Rating Assessment	Trailing Dividend Yield %	Market Cap	Investment Style	Sector	Industry
None	High	0.8	3 May 2023 05:00, UTC	14.08	7.9150 Bil	Large Value	Basic Materials	Steel

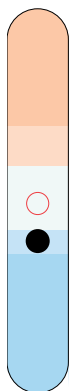
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD
Price/Fair Value ^Q	0.86	0.69	0.77	2.05	1.10	0.93	0.95	1.01	0.80	0.87	0.80
Total Return %	-10.88	-47.06	-60.74	183.38	-1.70	6.26	38.86	-10.69	20.82	42.68	-10.32
+/- Index	-6.77	-42.98	-48.02	146.33	-29.62	-10.15	4.83	-15.64	32.70	37.63	-13.62

Metric	Value
Fair Value ^Q	5.52
Last Close	4.44

Metric	Value
Performance Price/Fair Value ^Q	0.80
Total Return %	-10.32
+/- Index	-13.62

As of 6 Jun 2023 | Index: Morningstar Brazil GR BRL. Fair Value data as of 6 Jun 2023, 23:12 UTC.

The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating. Lee Davidson, Head of Manger and Quantitative Research, oversees the methodology that supports Quantitative Fair Value Estimates and Quantitative Star Ratings. Mr. Davidson is guided by the Code of Ethics and Investment Research Integrity Policy of Morningstar Research Services LLC, a subsidiary of Morningstar, Inc. Morningstar's Quantitative Research team, which consist of employees of Morningstar, Inc., are guided by Morningstar, Inc.'s Code of Ethics. For information regarding Conflicts of Interests, visit <http://global.morningstar.com/equitydisclosures>.

Valuation^Q as of 6 Jun 2023

Fair Value^Q
5.52
Uncertainty^Q :
High

Last Close
4.44

XGGB is Under Valued at a 20% discount.

Economic Moat^Q

None

Financial Health^Q

Moderate

1-Star Price^Q

> 7.67

5-Star Price^Q

< 3.97

Financials as of 6 Jun 2023 (Fiscal Year End 31 Dec 2023)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	Fiscal
Revenue (Bil)	40	43	44	38	37	46	40	44	78	82	19	Revenue (Bil)
Operating Income (Bil)	2.70	2.50	1.81	1.35	2.04	4.46	3.22	5.52	20.02	16.60	3.94	Operating Income (Bil)
Operating Margin (%)	6.77	5.88	4.14	3.59	5.53	9.67	8.13	12.59	25.55	20.14	20.89	Operating Margin (%)
Net Income (Bil)	1.58	1.40	-4.55	-2.89	-0.36	2.30	1.20	2.37	15.49	11.43	3.21	Net Income (Bil)
Diluted Earnings/Share	0.89	0.78	-2.56	-1.62	-0.20	1.28	0.67	1.31	8.61	6.19	1.82	Diluted Earnings/Share
Operating Cash Flow (Bil)	4.10	2.57	7.16	3.52	2.08	2.00	1.64	6.41	12.52	11.15	1.96	Operating Cash Flow (Bil)
Capital Spending (Mil)	-2,757	-2,409	-2,451	-1,378	-911	-1,262	-1,847	-1,805	-3,192	-4,481	-982	Capital Spending (Mil)
Free Cash Flow (Mil)	1,342	162	4,711	2,138	1,165	737	-204	4,603	9,325	6,669	982	Free Cash Flow (Mil)
Avg Shares Outstand(Mil)	1,792	1,792	1,773	1,790	1,794	1,802	1,795	1,797	1,799	1,847	1,760	Avg Shares Outstand(Mil)
Dividend Per Share	0.22	0.24	0.21	0.05	0.05	0.36	0.27	0.30	2.92	5.61	0.63	Dividend Per Share

Valuation as of 6 Jun 2023

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Current	Calendar
Price/Fair Value ^Q	0.86	0.69	0.77	2.05	1.10	0.93	0.95	1.01	0.80	0.87	0.80	Price/Fair Value ^Q
Price/Sales	0.83	0.40	0.19	0.47	0.59	0.54	0.82	1.06	0.66	0.45	0.53	Price/Sales
Price/Earnings	25.05	11.45	—	—	—	47.50	22.70	30.10	3.57	3.75	3.69	Price/Earnings
Price/Cash Flow	7.28	5.87	1.41	4.90	14.27	9.39	9.45	11.56	6.37	2.25	4.01	Price/Cash Flow
Price/Book	1.10	0.53	0.23	0.67	0.85	0.91	1.23	1.34	1.13	1.02	0.85	Price/Book

Operating Performance as of 6 Jun 2023 (Fiscal Year End 31 Dec 2023)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Q3	Fiscal (%)
Return on Assets	2.85	2.31	-6.84	-4.64	-0.68	4.54	2.29	4.04	22.63	15.48	4.29	Return on Assets
Return on Equity	5.5	4.49	-14.25	-10.38	-1.51	9.33	4.57	8.18	42.18	25.76	6.77	Return on Equity
Rtn on Invested Capital	4.72	4.24	-6.41	-3.79	0.99	7.41	4.23	6.46	30.43	20.4	5.44	Rtn on Invested Capital

Business Description

Gerdau SA produces steel and steel products. The company operates in civil construction, agriculture, automotive, iron ore, exports, research and development, and home steel products sectors. It offers products such as nails, rebar, columns, billets, slabs, tribar tutor, mechanical construction bars,

reinforced steel locks. The company's geographical segment includes Brazil Operations; North America Operations; South America Operations as well as Special Steel Operations. It derives most of the revenue from the Brazil Operations segment.

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Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings").

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- ii. **Quantitative Economic Moat:** Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.
 - Narrow** – assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
 - Wide** – assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
 - None** – assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

- iii. **Quantitative Star Rating:** Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, Quantitative Uncertainty Rating, and momentum. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

★ – the stock is overvalued with a reasonable margin of safety.

*Log (Quant FVE/Price) < -1*Quantitative Uncertainty*

*Micro-Caps: Log (Quant FVE/Price) < -1.5*Quantitative Uncertainty*

★★ – the stock is somewhat overvalued.

*Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*

*Micro-Caps: Log (Quant FVE/Price) between (-1.5*Quantitative Uncertainty, -0.75*Quantitative Uncertainty)*

★★★ – the stock is approximately fairly valued.

*Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*

*Micro-Caps: Log (Quant FVE/Price) between (-0.75*Quantitative Uncertainty, 0.75*Quantitative Uncertainty)*

★★★★ – the stock is somewhat undervalued.

*Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*

*Micro-Caps: Log (Quant FVE/Price) between (0.75*Quantitative Uncertainty, 1.5*Quantitative Uncertainty)*

★★★★★ – the stock is undervalued with a reasonable margin of safety.

*Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

*Micro-Caps: Log (Quant FVE/Price) > 1.5*Quantitative Uncertainty*

After the initial calculation for the star rating, there is a final filtering step based on the momentum of the company. We rank the companies based on their 12-1 month momentum, then restrict those below the 30th percentile to a maximum of 3 stars.

- iv. **Quantitative Uncertainty:** Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

Low – the interquartile range for possible fair values is less than 10%

Medium – the interquartile range for possible fair values is less than 15% but greater than 10%

High – the interquartile range for possible fair values is less than 35% but greater than 15%

Very High – the interquartile range for possible fair values is less than 80% but greater than 35%

Extreme – the interquartile range for possible fair values is greater than 80%

- v. **Quantitative Financial Health:** Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

Weak – assigned when Quantitative Financial Health < 0.2

Moderate – assigned when Quantitative Financial Health is between 0.2 and 0.7

Strong – assigned when Quantitative Financial Health > 0.7

Other Definitions

- i. **Last Close** – Price of the stock as of the close of the market of the last trading day before date of the report.
- ii. **Quantitative Valuation** – Using the below terms, intended to denote the relationship between the security's **Last Price** and Morningstar's quantitative fair value estimate for that security.

Undervalued – Last Price is below Morningstar's quantitative fair value estimate.

Fairly Valued – Last Price is in line with Morningstar's quantitative fair value estimate.

Overvalued – Last Price is above Morningstar's quantitative fair value estimate.

Overvalued – Last Price is above Morningstar's quantitative fair value estimate.

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Based on their quantitative scores, companies are grouped into one of five Risk

Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

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